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Hong Kong's Economy Is Now Risky Business

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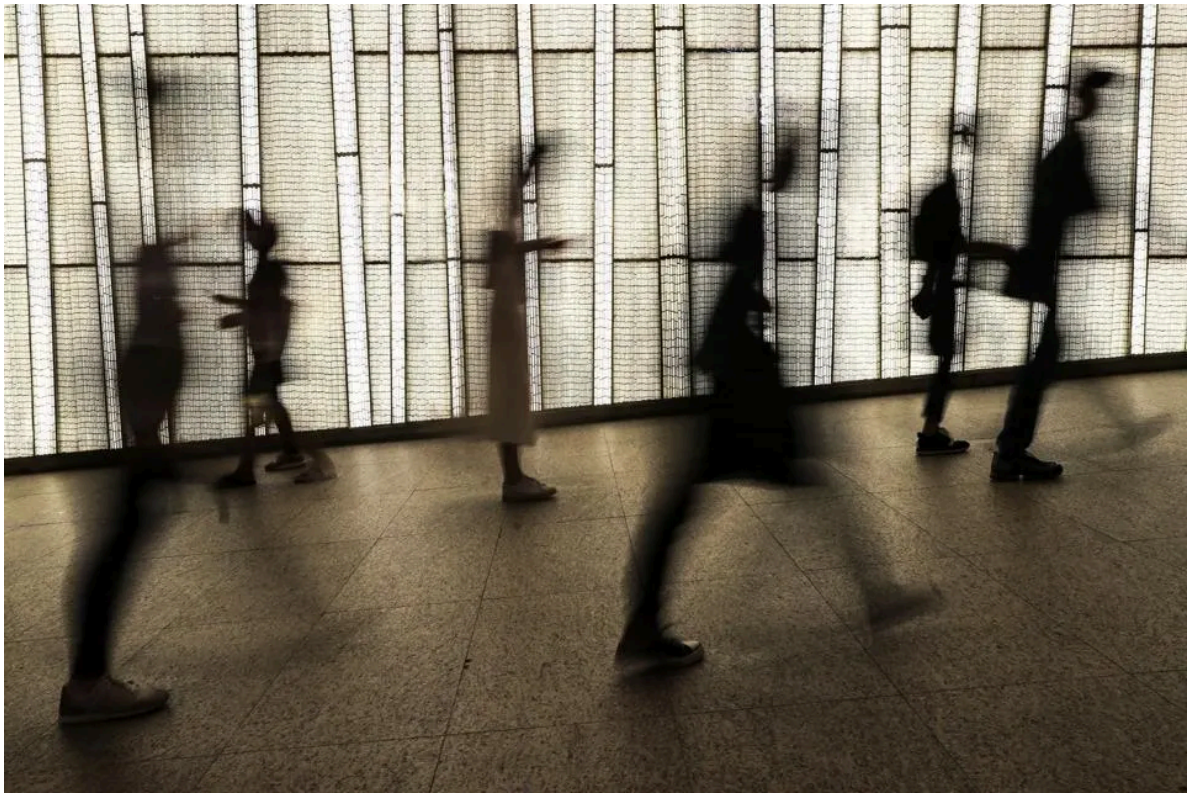
Updated Jul 31, 2024, 09:20pm EDT



TOPSHOT - People are seen silhouetted against a storefront display in Hong Kong on September 27, ... [+] AFP VIA GETTY IMAGES

Hong Kong is not the world's freest market economy that it once was. For years, Hong Kong was a place where one could count on an open business environment with strong rule of law protections. 2020 – and the subsequent implementation of the National Security Law (NSL) and Article 23 legislation – changed all of that. And now, today, Hong Kong is increasingly becoming a hub for rogue regimes to conduct illicit financial transactions and evade international sanctions.

A new report by lawyer and Hong Kong advocate Samuel Bickett for the Committee for Freedom in Hong Kong Foundation (CFHK First Trust Hong Kong AlphaDEX Fund 0.0%) presents evidence for the extent and nature of Hong Kong's sanctions evasion. Bickett's report goes beyond the headlines we all know – that Chief Executive John Lee has openly flouted U.S. and international law by refusing to enforce sanctions – and provides details on how Hong Kong is working at the behest of bad actors to undermine the rule of law.

"Fundamentally, we found that Hong Kong has gone rogue," Bickett said, "Hong Kong has repurposed the framework and institutions that long made it an essential node in the global financial system to support dangerous regimes threatening global stability."

Some of the key findings from the report include:

· Hong Kong has increased trade in recent years with Russia, Iran, & North Korea, despite the rise of international sanctions against these actors.

· Hong Kong contributes substantial funding toward Russia's war of aggression against to Ukraine; In fact, in August to December 2023 alone, Hong Kong provided over $750 million in shipments of banned goods to support Russia's war effort.

· Hong Kong companies are engaging in myriad activities – ship-to-ship transfers, provision of dual-use technologies or components, and establishing shell companies – to evade sanctions on behalf of rogue regimes.

The findings in the report were groundbreaking; many of the instances of sanctions evasion by Hong Kong entities were not previously documented. These revelations and other previously known instances of illegal conduct paint a picture of Hong Kong as a serial sanction's evader and emerging hub for illicit financial activities.

Hong Kong's changing behavior cannot be met with inaction on the part of the U.S. and the international community. Given the preeminence of the dollar in the global financial system, the U.S. should up the ante on the financial tools deployed to counter Hong Kong's illicit activities. These include using Treasury's panoply of special measures and considering whether entities, including Chinese banks, qualify to be designated under Section 311 of the USA Patriot Act as Primary Money Laundering Concerns (PMLCs). A PMLC designation is a powerful tool; if any entity in Hong Kong were to be designated, the international banking system would refuse to do business with the designated entity. A PMLC designation would have a chilling effect on the global business community's willingness to do business with that entity and others perceived as risky in Hong Kong.

After Beijing cracked down on Hong Kong, many warned the business community about the implications of the NSL and Article 23. This latest report reveals that degradations in the rule of law have implications that transcend the sphere of civil and political liberties. They are now affecting economic and security concerns.

The business community has tried to act as if it's business as usual in Hong Kong. But reality is far from that truth. It's time for the business community and governments around the globe to wake up to the reality that Hong Kong is not the same – in fact, it's a far riskier place to do business today than ever before.

UPDATE: After the publication of this article, The Government of the Hong Kong Special Administrative Region put out a Press Release that "disapproved and rejected" this article. See their response here.

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